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## CHAPTER 1

### 1-000 Introduction to the Defense Contract Audit Agency (DCAA)

#### 1-101 DCAA History

In December 1964, then Secretary of Defense Robert S. McNamara decided that DoD contract audits would be more effective and efficient if performed by a single organization. Accordingly, the Defense Contract Audit Agency (DCAA) was established as a separate Agency of the Department of Defense, effective July 1965.

#### 1-201 DCAA Organization

##### 1-201.1 DCAA Organizational Overview

a. The Agency operates under the direction, authority, and control of the Under Secretary of Defense (Comptroller). Its Director is a civilian selected by the Secretary of Defense. Organizationally, DCAA includes a Headquarters, Field Detachment, and five regions: Central, Eastern, Mid-Atlantic, Northeastern, and Western (refer to Figure 1-2-1 for Regional Boundaries). Within each region are resident and branch offices (refer to Figure 1-2-2 for DCAA organization chart). Resident offices are established at large defense contractor locations, and branches are established in major metropolitan areas to audit all other contractors on a mobile basis.

b. The DCAA Contract Audit Manual (DCAAM 7640.1), referred to as the "CAM", prescribes auditing policies and procedures for personnel engaged in the performance of the DCAA mission. The CAM is updated and reprinted in its entirety twice a year, in January and July. Copies of this document can be purchased from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402. Refer to Government Printing Office (GPO) Catalog No. D-1.46/2:7640.1/1283. The CAM and other DCAA documents can be found online at [www.dcaa.mil](http://www.dcaa.mil) under DCAA Publications.

##### 1-201.2 Branch Office Organization

a. Many contractors will be dealing with a branch office. Branch offices are managed by a branch manager and the office is organized into teams. The teams are led by a supervisory auditor who supervises a number of field auditors (approximately eight field auditors per supervisor). Audit offices may also have one or several assigned technical specialists. Technical specialists are subject matter experts available to assist the audit teams as the need arises. A contractor will most likely have direct contact primarily with the field auditors. Should questions arise during the audit, the contractor may elevate its concerns to the supervisor or field office manager.

b. A supervisor's responsibilities may be assigned on the basis of: (1) contractor, (2) location, or (3) audit function (i.e., one supervisor may be responsible for evaluating all proposals for several contractors). This means that a contractor may see one, or several field auditors, depending upon the timing and/or type of audit(s) being conducted.

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## **1-301 DCAA Responsibilities and Duties**

a. DCAA performs all needed contract audits for the Department of Defense (DoD) and provides accounting and financial advisory services regarding contracts and subcontracts to all DoD components responsible for acquisition and contract administration. These services are related to negotiation, administration, and settlement of contracts and subcontracts.

b. DCAA provides contract audit services to other Government agencies as appropriate.

c. DCAA furnishes professional accounting and financial advice to Government procurement personnel at all points of the procurement process including: (1) prenegotiation, (2) negotiation, (3) administration, and (4) settlement (contract closing).

d. DCAA fully adheres to and complies with the American Institute of Certified Public Accountants' (AICPA's) auditing standards and procedures. The AICPA standards have been fully incorporated into the Government Auditing Standards issued by the Comptroller General of the United States. These standards must be followed by Federal auditors for all audits of funds received by contractors, nonprofit organizations, and other external organizations.

## **1-401 DCAA General Audit Interests**

a. DCAA is concerned with identifying and evaluating all activities that either contribute to, or have an impact on, proposed or incurred costs of Government contracts.

b. DCAA evaluates contractors' financial policies, procedures, and internal controls.

c. DCAA performs audits which identify opportunities for contractors to reduce or avoid costs.

## **1-501 DCAA Major Areas of Emphasis**

a. DCAA's major areas of emphasis include: (1) internal control systems, (2) management policies, (3) accuracy and reasonableness of cost representations, (4) adequacy and reliability of records and accounting systems, (5) financial capability, and (6) contractor compliance with contractual provisions having accounting or financial significance such as the Cost Principles (FAR Part 31), the "Cost Accounting Standards Clause" (FAR 52.230-2) and the clauses pertaining to the Truth in Negotiations Act (FAR 52.215-10, -11, -12, and -13).

b. The extent of DCAA's involvement is determined by the type of contract that will be awarded. Generally, most DCAA efforts on firm-fixed price type contracts take place during the proposal stage rather than in the incurred cost stage. The reverse is true for flexibly priced contracts. The allowable costs properly included in the final pricing of flexibly priced contracts are generally determined after they are incurred and audited. Specific types of contracts are explained in Chapter 7.

Figure 1-2-1 Regional Boundaries

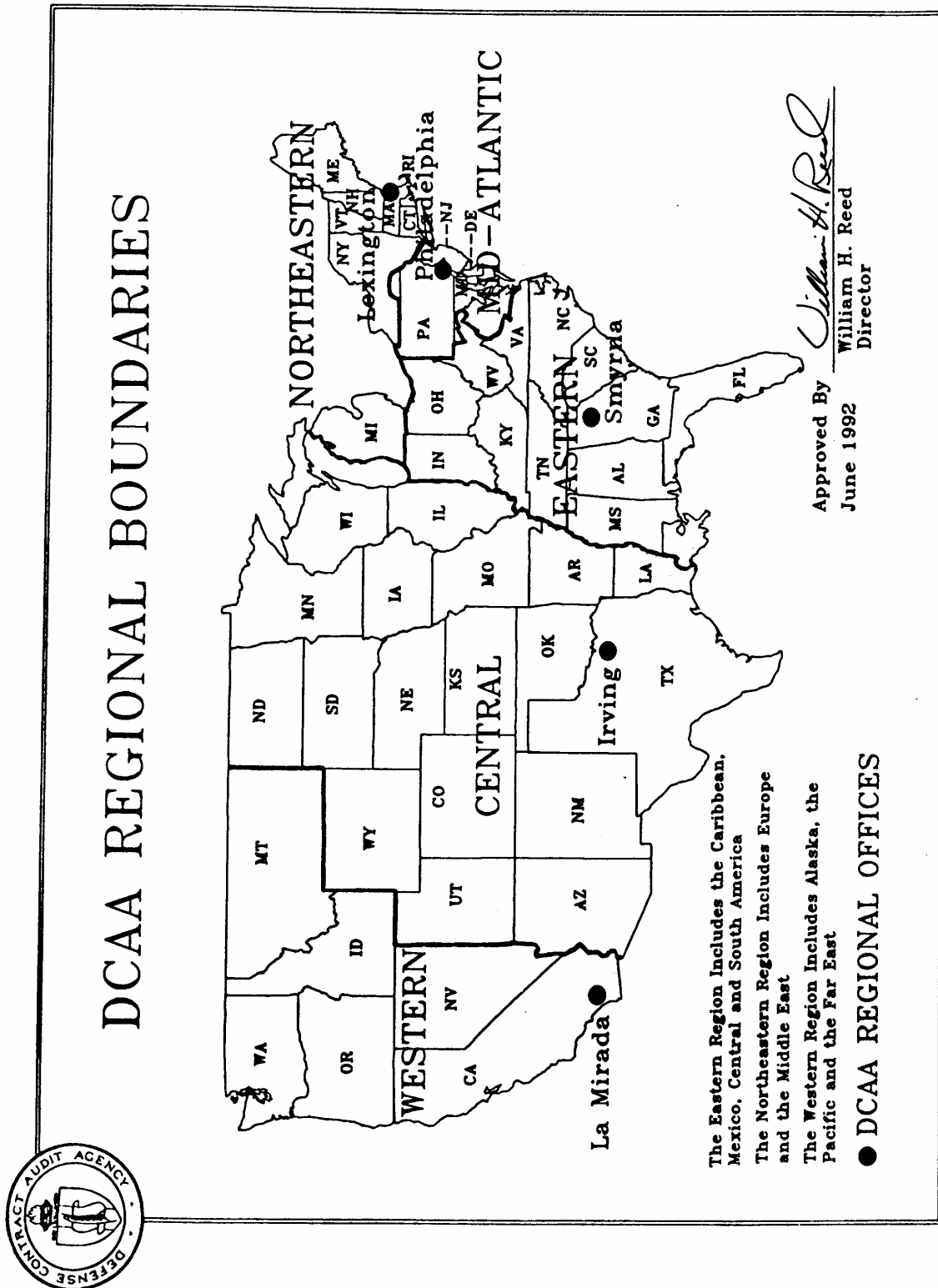
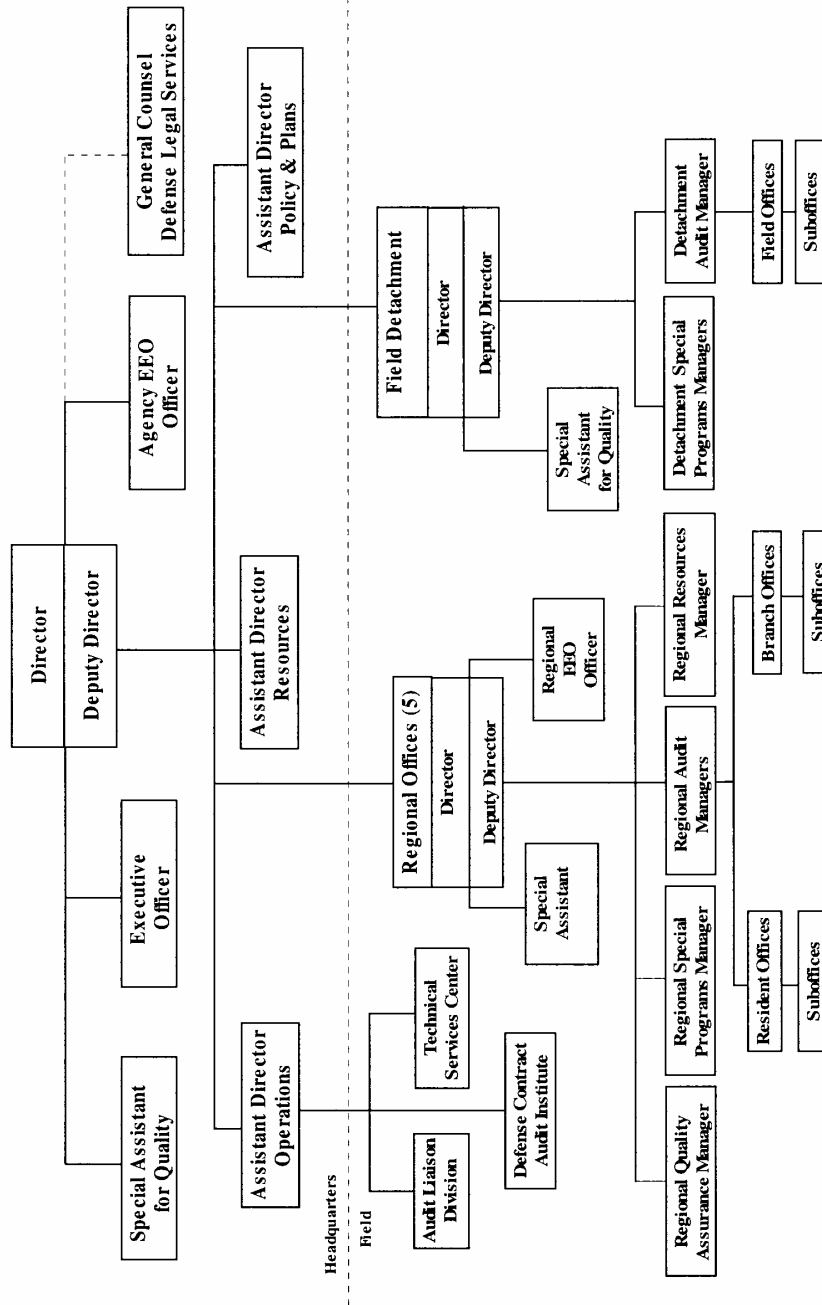


Figure 1-2-2 DCAA Organization Chart (Region Version)

DEFENSE CONTRACT AUDIT AGENCY



\*Regional Offices located in:  
Smymna, CA; Lowell, MA; Irving, TX; La Mirada, CA; and Philadelphia, PA

Field Activities (—)